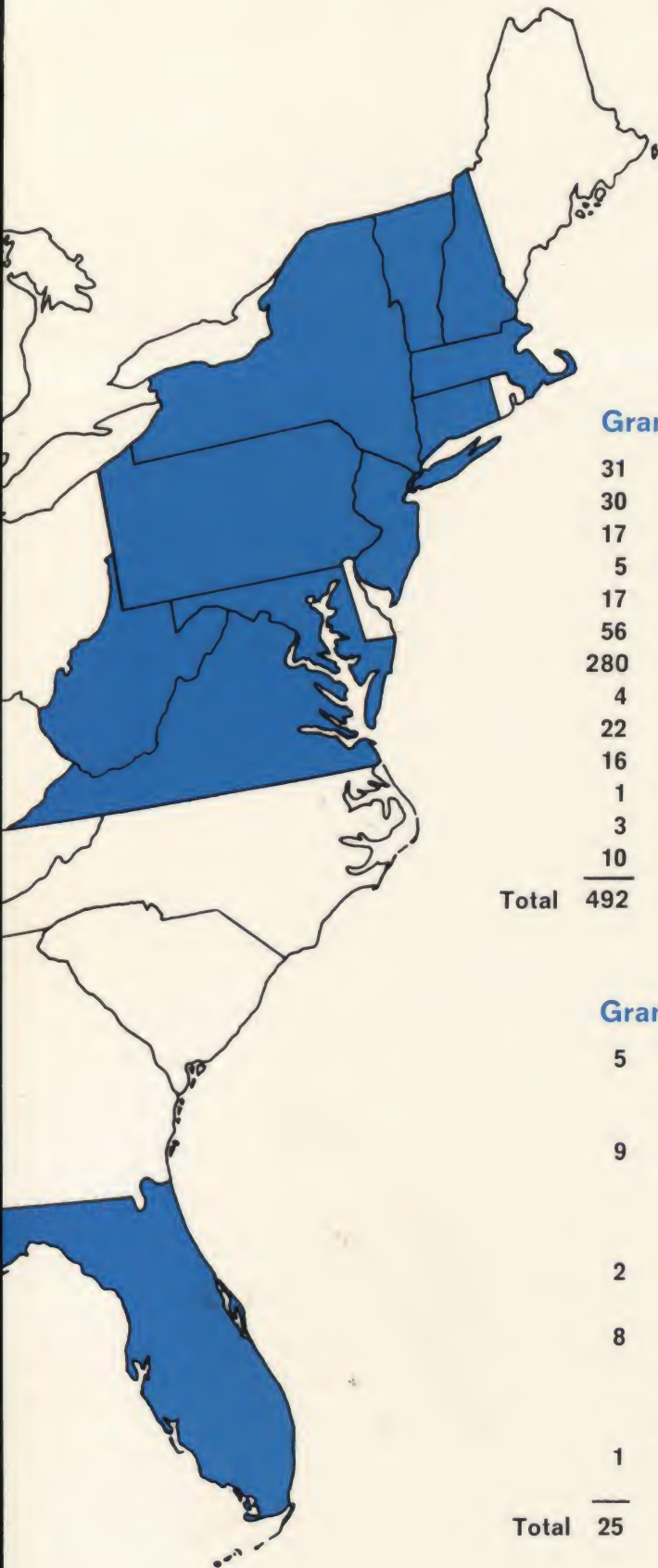




The Grand Union Company

1964 Annual Report





Grand Union Supermarkets

31	Connecticut
30	Florida
17	Maryland
5	Massachusetts
17	New Hampshire
56	New Jersey
280	New York
4	Pennsylvania
22	Vermont
16	Virginia
1	West Virginia
3	Washington, D.C.
10	Puerto Rico

Total 492



Grand Way Department Stores

5	Connecticut
	Danbury, Manchester, Stratford, Waterbury, West Haven
9	Florida
	Fort Lauderdale, Miami (3), Orlando, St. Petersburg (2), Tampa, West Hollywood
2	New Jersey
	Keansburg, Paramus
8	New York
	Albany, Binghamton, Cortland, Nanuet, Plattsburgh, Poughkeepsie, Rome, Vestal
1	Vermont
	South Burlington

Total 25

Totals as of April 22, 1965

Puerto Rico



Annual Report

FOR THE FISCAL YEAR ENDED
FEBRUARY 27

1965



The Grand Union Company

100 BROADWAY

EAST PATERSON

NEW JERSEY 07407

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Annual Meeting

The annual meeting of stockholders will be held at 11 A.M., Wednesday, May 26, 1965 in the auditorium of the Garden State Plaza Shopping Center, Routes 4 and 17, Paramus, New Jersey. A notice of the meeting, a proxy statement and form of proxy are being mailed to each stockholder with this report.



Financial Highlights

	1964	1963
Net sales	\$740,039,690	\$667,417,492
Earnings before income taxes	18,572,417	14,370,214
Federal income taxes	9,000,000	7,350,000
Net earnings	9,572,417	7,020,214
Earnings per common share*	1.85	1.35
Working capital	45,857,597	43,828,591
Current ratio	1.96	2.08
Inventories	65,643,456	59,004,951
Number of common stockholders	14,046	12,961

**Based on the average number of shares outstanding during the respective periods. The earnings per share for 1963 have been adjusted for the 4% common stock dividend paid May 22, 1964. Earnings per share are stated after dividends paid on the 4½% cumulative preferred stock.*





Report to Our Stockholders

From the standpoint of both sales and profits, fiscal 1964 was by far the best year Grand Union has ever had.

Sales totaled \$740,039,690, topping the previous record of \$667,417,492 set in 1963 by 10.9%.

Net earnings, after all taxes and depreciation, amounted to \$9,572,417. This represents an all-time high and is 36.4% above 1963 net earnings of \$7,020,214.

Our 1964 earnings were equivalent to \$1.85 per share on the average number of shares of common stock outstanding during the year. This compares with \$1.35 per share in fiscal 1963, after adjusting for the 4% stock dividend distributed in May of 1964.

Following the close of the 1964 fiscal year, the Board of Directors on April 9, 1965, voted a 4% stock dividend and the regular quarterly cash dividend of 15¢ per share on the common stock. The cash dividend is payable on May 28, 1965, to stockholders of record April 22, 1965. The stock dividend is payable June 29, 1965, to stockholders of record June 4, 1965, and is conditioned upon stockholders authorizing at the Annual Meeting on May 26 an increase in the authorized shares of common stock.

MAJOR ACCOMPLISHMENTS IN 1964

Underlying Grand Union's sales gain of more than \$72,000,000 in 1964 were a number of major accomplishments.

Sales in stores a year or more old were increased from the outset and maintained at higher levels throughout the year. Better merchandising, greatly improved operations and vigorous, continuing promotions contributed substantially to the achievement. So did an extensive program of store renovation. Forty-six supermarkets were renovated or enlarged during 1964. Painstaking attention to detail in the company's continuing program of enlargement and renovation is paying off handsomely.

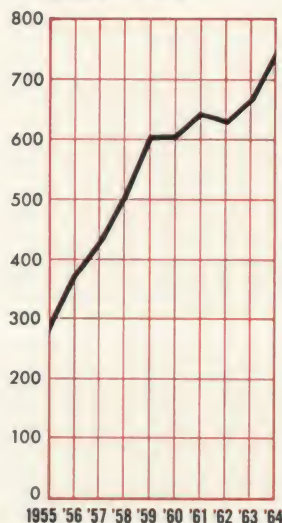
New store construction and acquisitions also played an important role in Grand Union's progress during 1964. Twenty-one new Grand Union supermarkets were put into operation, and one new Grand Way. Ten markets were acquired. These included the nine Stevens stores in the Miami area, one of which was converted into a Grand Way.

Seventeen stores were closed during the year. New supermarkets opened during 1964 were one-third larger, on the average, than those closed.

GRAND UNION LABEL INCREASES SALES

Better merchandising results were obtained during the year as more than 600 different food products appeared on our shelves bearing the newly-designed Grand Union label. Heretofore, these products had been sold under nine different labels. We are now capitalizing fully on the Grand Union reputation for selling only the highest quality products at the lowest possible price.

Net Sales
Millions of Dollars



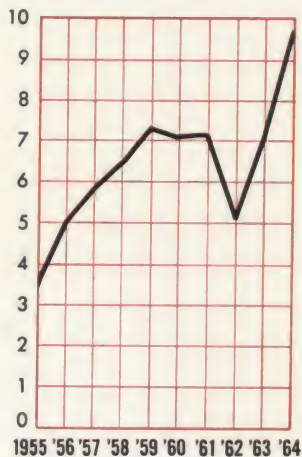
Customer response has been enthusiastic, and not to the detriment of other brands. As sales of Grand Union brands have increased, so have those of the nationally and locally advertised brands which still comprise more than 90% of our grocery line.

More intensive training of personnel at store level on a company-wide basis and successful application of better work methods and work scheduling; better ordering and materials-handling methods developed by our Research Department resulted in a much improved store operation. During the year, additional executive and field supervisory personnel were assigned to give further impetus to this all-important program.

Progress was made in developing new applications for computers, already handling warehouse inventory control, store billing and payrolls. An IBM system of direct store-to-warehouse electronic merchandise ordering was inaugurated in one Division with excellent results.

Intensive work was carried out on IMPACT, our electronic warehouse reordering system. The first stage of the program will be operative this year.

Net Earnings
Millions of Dollars



GRAND WAY PERFORMANCE IMPROVES

Contributing markedly to company progress in 1964 was continued improvement in performance by our Grand Way Division of 25 stores, each selling up to 100,000 items of general merchandise and, with only four exceptions, a full supermarket food line. More than anything else, this improvement reflected the steps being taken to upgrade the Grand Way general merchandise operation from the discount to the department store level. Older Grand Ways are being converted as rapidly as possible to the new "high fashion" look that characterizes stores opened by the Division during the past two years and planned for the future.

Grand Way results in 1964 confirmed our conviction that within a few years the Division will make an even greater contribution to overall company earnings.

During the year it was determined that the number of new Grand Ways opened each year should be substantially increased. To that end, an intensive site acquisition program has been launched throughout the 26-state area east of the Mississippi. While the length of time needed to acquire suitable department store sites, and build and merchandise such stores, is longer than the time needed to select a site, construct and open a supermarket, we can look forward to a Grand Way opening program of four to six stores annually within the next year or two.

TRIPLE-S AND P I C CONTINUE UPWARD TREND

Distribution of Triple-S Blue Stamps by the Company's Stop and Save Trading Stamp Corporation through Grand Union supermarkets and several thousand other retail organizations along the Eastern seaboard, increased during the year. So did redemption of filled stamp books. Two new Redemption Centers were opened, to bring the total to 55.

Grand Union's sales and safety incentive affiliate, Performance Incentives Corporation, opened a new office and warehouse in Glendale, California.

P I C sales were the best to date, up 75% over 1963.

Enlargement of administration and warehouse facilities for Triple-S and P I C in South Hackensack, N. J., was completed during the year, enabling consolidation of a number of hitherto scattered operations.

PLANS FOR BETTER RESULTS IN 1965

Looking ahead, we expect 1965 to be an even better year for Grand Union than 1964. Sales for the first four weeks of the current fiscal year point that way. Despite the much later Easter, which reduced general merchandise volume slightly in comparison with the same period of 1964, our sales were up 8.5%.

To continue the upward trend in sales and profits, which, for Grand Union began in mid-1962, we plan in 1965 to:

Step up supermarket construction to open 25 to 30 new stores during the year. Open at least two new Grand Ways.

Accelerate the conversion of our older Grand Ways to full department store operations in the general merchandise field. Two such conversions are now in progress. Three are in advanced stages of planning.

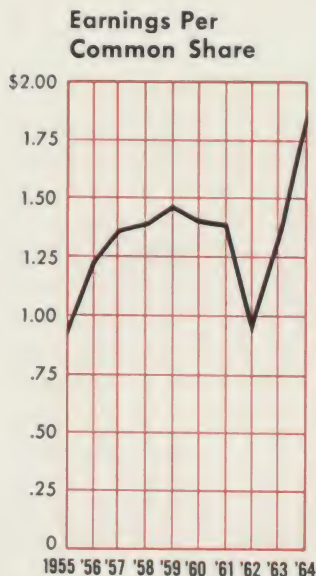
Continue our supermarket renovation and enlargement program on an extensive scale. With the fiscal year still young, twelve stores are already in the process of being renovated. Eight are being considerably enlarged, as well.

Complete, by September, a new 40,000 square foot bakery plant now under construction in Miami to serve the company's 39-store Florida Division.

Continue to broaden the lines of Grand Union private label merchandise.

Augment our already intensive training programs for personnel, from checkers and warehousemen to store General Managers and field supervisory personnel.

Specific goals for greater sales and increased profitability have been set in each of the company's operating divisions. They have been accepted with enthusiasm. We are confident that they will be achieved.



LAWRENCE C. MARSHALL ELECTED DIRECTOR

Lawrence C. Marshall, Vice Chairman of the Board of Directors of The Chase Manhattan Bank, was elected a Director of The Grand Union Company on March 12. His wealth of experience in the field of finance and amply demonstrated administrative skills will be of inestimable value.

The Company's success in 1964 is a revealing measure of the abilities, skills and dedication of the more than 19,000 men and women who are now members of the Grand Union family. As stockholders, I know that you join the Directors and Officers in thanking them for their many and varied contributions to Grand Union's continuing progress.

Thomas C. Butler

PRESIDENT

April 22, 1965



**Grand
Way**

DEPARTMENT STORES
WHERE SAVINGS ARE IN FASHION



These products joined the Grand Union private label line-up during the 1964 fiscal year. More than 600 items of food and general merchandise are now marketed under the "Grand Union Brand" label.



Contemporary and sophisticated in design, this Grand Way Department Store is under construction in Miami, Florida. The functional and handsome building is a complement to Grand Way's high fashion emphasis.



Remodeled supermarkets are a potent factor in maintaining customer loyalty. This store, in Glen Ridge, N. J., features cedar shingles, copper lanterns and wall paneling as part of its new decor.



**Consolidated**

ASSETS		
	<u>Feb. 27, 1965</u>	<u>Feb. 29, 1964</u>
Current assets:		
Cash	\$ 19,396,686	\$ 16,549,646
Temporary cash investments, at cost	4,414,520	5,092,547
Accounts receivable, less allowance for losses	4,198,563	3,605,355
Inventories, at the lower of cost or market (note 1)	<u>65,643,456</u>	<u>59,004,951</u>
Total current assets	93,653,225	84,252,499
Investment in and advances to affiliated companies, at cost (note 2)	3,691,232	3,538,232
Fixed assets, at cost less allowances for depreciation and amortization (1965, \$41,400,368; 1964, \$37,959,989):		
Land	2,920,820	2,436,040
Fixtures and equipment	39,971,274	37,627,799
Leasehold improvements and leaseholds	13,299,191	12,447,208
Other	1,416,294	1,299,998
Operating and construction supplies	1,340,472	1,289,761
Other assets and deferred charges	2,419,933	2,437,515
Cost in excess of amounts of net assets at dates of acquisition	<u>7,422,195</u>	<u>7,433,074</u>
	<u>\$166,134,636</u>	<u>\$152,762,126</u>

See accompanying financial notes



Balance Sheets

LIABILITIES

	<u>Feb. 27, 1965</u>	<u>Feb. 29, 1964</u>
Current liabilities:		
Promissory notes due within one year	\$ 1,312,500	\$ 1,250,000
Accounts payable and accrued liabilities	39,427,442	33,130,187
Federal income taxes	7,055,686	6,043,721
Total current liabilities	47,795,628	40,423,908
Promissory notes payable after one year in varying amounts annually through 1973	10,700,000	12,187,500
4½ % subordinated debentures, due 1978 (note 3)	9,869,900	9,871,600
Liability for unredeemed trading stamps, less amount included in current accrued liabilities (1965, \$4,632,606; 1964, \$4,522,256)	1,540,000	1,500,000
Deferred federal income taxes	5,022,812	4,954,165
Deferred investment tax credit	1,052,800	680,800
Other noncurrent liabilities and reserves	1,014,220	987,734
	<u>\$ 76,995,360</u>	<u>\$ 70,605,707</u>

CAPITAL

4½ % cumulative preferred stock, \$50 par value, callable at \$52 per share; authorized 116,000 shares, issued 106,308 shares	\$ 5,315,400	\$ 5,776,450
Common stock, \$5 par value, authorized 6,000,000 shares, issued at Feb. 27, 1965, 5,068,113 shares (notes 3 and 5)	25,340,565	24,138,395
Capital surplus, as annexed	48,242,853	44,879,602
Retained earnings, as annexed (note 6)	10,403,355	7,720,828
	89,302,173	82,515,275
Less, treasury stock at cost (at Feb. 27, 1965, 12,733 common shares)	162,897	358,856
	<u>\$ 89,139,276</u>	<u>\$ 82,156,419</u>
	<u>\$166,134,636</u>	<u>\$152,762,126</u>

See accompanying financial notes



Consolidated Statements

Income and Retained Earnings

	<i>Fifty-two weeks ended Feb. 27, 1965</i>	<i>Fifty-two weeks ended Feb. 29, 1964</i>
Net sales	\$740,039,690	\$667,417,492
Cost of sales	576,414,365	522,376,674
Gross profit	<u>\$163,625,325</u>	<u>\$145,040,818</u>
Operating and general expenses:		
Salaries and wages to employees in the sales department	\$ 67,082,269	\$ 60,052,325
Other selling, administrative and general expenses	76,489,625	69,672,795
	<u>\$143,571,894</u>	<u>\$129,725,120</u>
	\$ 20,053,431	\$ 15,315,698
Other deductions, principally interest expense, net	1,481,014	945,484
Income before provision for income taxes	18,572,417	14,370,214
Provision for federal income taxes (note 4)	9,000,000	7,350,000
Net income	<u>9,572,417</u>	<u>7,020,214</u>
Retained earnings, beginning of period	7,720,828	5,523,362
	<u>17,293,245</u>	<u>12,543,576</u>
Less dividends:		
On common stock:		
In cash	2,983,682	2,873,998
In common stock, based on market price	3,659,191	1,699,128
On 4½ % cumulative preferred stock, in cash	247,017	249,622
Retained earnings, end of period (note 6)	<u>\$ 10,403,355</u>	<u>\$ 7,720,828</u>

Capital Surplus

Balance, beginning of period	\$ 44,879,602	\$ 43,646,272
Add:		
Excess of retained earnings capitalized in connection with stock dividends over par value of shares issued	2,696,246	1,227,148
Excess of amounts received over par value of shares of common stock issued under employees' stock option plans (note 5)	634,594	6,182
Excess of principal amount of debentures converted into common stock over par value of shares issued (note 3)	1,201	—
Excess of par value over cost of treasury preferred stock retired	31,210	—
Balance, end of period	<u>\$ 48,242,853</u>	<u>\$ 44,879,602</u>

See accompanying financial notes

Notes to Financial Statements

1. Cost of inventories is determined as follows: at warehouses, "average" or "first-in, first-out"; at retail outlets, "retail method."

2. The consolidated financial statements include the accounts of all wholly owned subsidiaries. The company's investment in affiliated companies represented approximately 32% and 51%, respectively, of the outstanding common stock of Eastern Shopping Centers, Inc., and Performance Incentives Corporation. Eastern acquires, develops and operates shopping centers while PIC offers employee incentive plans for business organizations. At February 27, 1965, the company's equity in the net assets of and advances to these affiliates, based upon the most recent audited financial statements, amounted to approximately \$3,183,000.

3. The 4½% debentures outstanding at February 27, 1965 are convertible until July 15, 1968, into common stock on the basis of \$25.19 principal amount of debentures for each share of stock. The conversion price is subject to certain adjustments as specified in the indenture. At February 27, 1965, an aggregate of 391,825 shares of common stock was reserved for the conversion of such debentures.

4. The provision for federal income taxes includes \$440,000 for the period ended February 27, 1965 and \$1,434,000 for the period ended February 29, 1964, applicable to deferred income taxes and investment tax credit. The investment tax credit is being amortized over the useful life of the property.

5. At February 27, 1965, 245,443 shares of common stock were provided under the 1964 stock option plan for the granting of options to employees at prices not less than 100% of the market price on the dates the options are granted. Options may not be granted to directors who are not also officers.

A summary of the share activity applicable to the prior stock option plans, under which no further options may be granted, follows:

Options outstanding, February 29, 1964	409,047
Shares added to reflect 4% stock dividend	<u>15,237</u>
	424,284
Options exercised, cancelled or expired	<u>86,105</u>
Options outstanding, February 27, 1965	<u>338,179</u>
(held by approximately 4,250 employees at prices ranging from \$13.24 to \$28.31 per share)	

The outstanding options are exercisable through December 31, 1970.

6. The note agreements and the 4½% debenture indenture contain provisions as to the maintenance of working capital and payment of cash dividends. The most restrictive of these provides that consolidated working capital may not be less than \$14,500,000, and that payments for net acquisitions of the company's stocks and for cash dividends will be limited in the aggregate to 75% of the consolidated net earnings after March 2, 1957. At February 27, 1965, 75% of such consolidated net earnings exceeded such payments by approximately \$19,800,000 and, accordingly, none of the balance of retained earnings is so restricted.

7. The companies have 526 leases on store, warehouse and other properties expiring after March 2, 1968. The minimum annual rentals on such leases, not including real estate taxes or other expenses payable under the terms of certain of the leases, aggregate approximately \$14,024,000. Of the aggregate annual rentals, \$9,666,000 applies to leases expiring prior to March 1, 1980 and \$4,358,000 applies to leases expiring thereafter but prior to 1992. In addition, the company is contingently liable on 36 leases applicable principally to stores sold, expiring after March 2, 1968, but prior to 1984 and having minimum annual rentals aggregating \$960,000.

8. Costs and expenses include depreciation and amortization of \$7,180,000 and \$6,586,000 for the periods ended in 1965 and 1964, respectively.

Auditors' Report

To the Stockholders, The Grand Union Company, East Paterson, New Jersey:

We have examined the consolidated balance sheet of The Grand Union Company and Subsidiaries as of February 27, 1965 and the related statements of income and retained earnings and of capital surplus for the fifty-two week period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the Company and Subsidiaries for the fifty-two week period ended February 29, 1964, which included the consolidated statements of a subsidiary company which had been examined by other certified public accountants. Our opinion expressed herein insofar as it relates to amounts included for such subsidiary company for the fifty-two week period ended February 29, 1964 is based solely upon the report of such other accountants.

In our opinion, the accompanying financial statements (pages 8 through 11) present fairly the financial position of The Grand Union Company and Subsidiaries at February 27, 1965 and February 29, 1964, and the consolidated results of their operations for the fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

New York, April 15, 1965.

Ten Year Comparisons

Relating to Operations

Year	Net sales	Earnings before taxes on income	Federal income taxes	Net earnings	Earnings per common share (1)
1964	\$740,039,690	\$18,572,417	\$9,000,000	\$9,572,417	\$1.85
1963	667,417,492	14,370,214	7,350,000	7,020,214	1.35
1962	630,529,554	10,204,089	5,150,000	5,054,089	.96
1961	640,621,586	14,582,507	7,430,000	7,152,507	1.39
1960	604,273,503	14,470,898	7,380,000	7,090,898	1.40
1959	603,468,099	15,154,045	7,800,000	7,354,045	1.47
1958	503,712,887	13,096,522	6,650,000	6,446,522	1.39
1957	427,871,082	11,583,365	5,770,000	5,813,365	1.36
1956	374,155,488	10,049,315	5,000,000	5,049,315	1.23
1955	283,003,166	7,284,125	3,700,000	3,584,125	.93

(1) Based on the average number of shares outstanding during the respective periods adjusted for (a) subsequent stock dividends on common stock which were paid at the rate of 5% during each of the years 1956, 1957, 1958 and 1960, at the rate of 4% during the year 1964, at the rate of 3% during 1959, 1961 and 1962 and at the rate of 2% during 1963 and (b) the three-for-two split effective June 15, 1959. Earnings per share are stated after dividends paid on the 4½% cumulative preferred stock.

Source and Application of Funds

Source	Fifty-two weeks ended Feb. 27, 1965	Fifty-two weeks ended Feb. 29, 1964
Net income	\$ 9,572,417	\$ 7,020,214
Charges to income not requiring funds:		
Depreciation and amortization	7,180,000	6,586,000
Deferred income taxes	440,000	1,434,513
Sale of stock under stock option plans	873,514	8,872
	<u>\$18,065,931</u>	<u>\$15,049,599</u>
Application		
Cash dividends	\$ 3,230,699	\$ 3,123,620
Additions to fixed assets, net.	10,976,534	6,575,170
Reduction in long term debt	1,487,500	1,250,000
Changes in other assets and liabilities, net	342,192	(740,376)
Increase in working capital	2,029,006	4,841,185
	<u>\$18,065,931</u>	<u>\$15,049,599</u>

The Grand Union Company

GENERAL OFFICES

100 Broadway, East Paterson, N. J. 07407

DIRECTORS

*JOHN E. RAASCH	<i>Chairman of the Board; Former President & Chairman Board of Directors, John Wanamaker</i>
*LOUIS A. GREEN	<i>Chairman of the Executive Committee; Partner, Stryker & Brown, Securities, New York City</i>
*THOMAS C. BUTLER	<i>President and Chief Executive Officer</i>
EMERSON E. BRIGHTMAN	<i>Vice President</i>
JOSEPH L. ECKHOUSE	<i>Vice President</i>
RAYMOND H. FOGLER	<i>Former President, W. T. Grant Company</i>
IRVING KAHN	<i>Partner, Abraham & Co., Securities, New York City</i>
†LAWRENCE C. MARSHALL	<i>Vice Chairman Board of Directors, The Chase Manhattan Bank</i>
WILLIAM I. MYERS	<i>Former Dean, College of Agriculture, Cornell University, Ithaca, New York</i>
WILLIAM H. PREIS	<i>Vice President</i>
ARTHUR J. QUINN	<i>Executive Vice President, The New York Bank for Savings</i>
CHARLES G. RODMAN	<i>Vice President</i>
LAURENCE A. TISCH	<i>Chairman Board of Directors & President, Loew's Theatres, Inc.</i>

*Executive Committee

†Elected March 12, 1965

OFFICERS

THOMAS C. BUTLER	<i>President and Chief Executive Officer</i>
EMERSON E. BRIGHTMAN	<i>Vice President</i>
JOSEPH L. ECKHOUSE	<i>Vice President</i>
BERNARD A. LUBECK	<i>Vice President</i>
LLOYD W. MOSELEY	<i>Vice President</i>
WILLIAM H. PREIS	<i>Vice President</i>
CHARLES G. RODMAN	<i>Vice President</i>
BERTRAM D. SHEPARD	<i>Vice President and Secretary</i>
EARL R. SILVERS, JR.	<i>Vice President</i>
CHARLES H. HAIGHT	<i>Treasurer</i>

TRANSFER AGENT

*The Chase Manhattan Bank
New York, N. Y. 10015*

REGISTRAR

*Chemical Bank New York Trust Company
New York, N. Y. 10015*

